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# "China Trade Panel", Center for Strategic and International Studies

Max S. Baucus

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Senator \* or Department\*: **BAUCUS**

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MONTH/YEAR of Records\*: **April-1998**

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(1) Subject\*: **Trade**

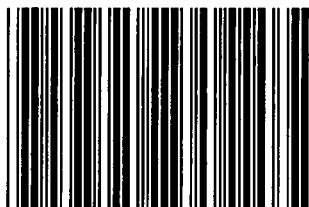
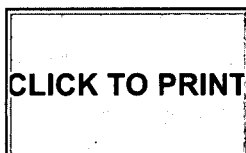
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(2) Subject\* **China Trade Panel - Center for Strategic and International Studies**

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BAUCUS

China Trade Panel  
Center for Strategic and International Studies  
Senator Max Baucus

April 29, 1998

Good afternoon, everyone.

I'm very much interested in hearing what all of you have to say. Senators spend all too much time hearing themselves talk, and today I want to listen a bit more. So I'll be brief.

TRADE PROBLEMS

For the past eight years, trade and economics have been the glue holding relations with China together. During the debates over MFN status in the early 1990s, the promise of the China market, and our desire to support China's economic reforms, were probably the most important factor preventing a major break.

In the past year our overall relationship with China improved. Some of the gaps on security and human rights issues narrowed. But while this has happened, trade is in danger of becoming the weak point in our relationship.

Why is this, and what can we do about it?

To begin with, our economic goals are not so far apart. China's reformers seek a working market economy for China's people. We seek a fair and open market. Those two things can go together. And in some other economic areas -- especially China's response to the Asian financial crisis -- we work together very well.

THREE RISKS

But trade is an exception. Our goal has been to open trade through a good WTO accession, which would open trade to our goods and services while allowing us to move forward on full normalization of trade relations, including permanent MFN status.

That is the right goal. But negotiations have stalled for two years. And if they don't speed up as President Clinton's visit approaches, I see three big risks ahead.

1: China Trade as an Economic Issue

First is the economic risk the status quo poses to us.

Our imports, from China and Hong Kong combined, have grown

from \$50 to \$72 billion. Our exports, only from \$30 to \$34 billion. So the deficit has grown to an enormous height.

The reasons are clear. The Agriculture Ministry, whose policies on wheat and citrus violate our 1992 Market Access Agreement, fears a backlash from farmers. Industrial ministries own companies, joint ventures and "pillar industries" which will get competition from foreign firms. "Red capitalists" might lose concessions from relatives in the government, and all the rest. And so on and so forth. It is unfair to Americans. It is only fair and right that China is as open to us as we are to them. And the status quo invites a broad campaign against trade with China.

## 2. China Trade as a Political Issue

Second is a broader political risk to US-China relations.

As long as our own economy remains strong, trade problems will be one in a long list of items on our China agenda. But when our economy turns down, if we are still looking at flat exports and \$40 or \$50 billion trade deficits, we should expect a great deal of anger and fear from the public.

With both parties divided over trade and China policy, that could make trade with China -- including the WTO accession -- a divisive issue in the 2000 Presidential campaign. The consequences of that are hard to predict. But ever since the 1950s and the "who lost China" debate, past, when China policy has become a political issue, the consequences have usually been bad.

## 3: China's Economic Health

And third, the status quo may be a threat to China's economic health.

At present, in most ways China's economic management looks good. The economy is growing. Buildings are going up all over the place. Companies are opening and people are finding opportunity.

But this is accompanied by warning signs that, in hindsight, we should have caught in Southeast Asia and Korea. Politically driven loans to support favored industrial sectors, companies or individuals. Corruption and nepotism. Property bubbles in big cities. The proportion of bad debts from state-owned industries rising while government revenue falls relative to GDP.

To paraphrase Chairman Mao, the East is in the red. And the status quo is not only bad for us, it is dangerous for China.

#### NEXT STEPS

So I think -- for our own economic interest, for the good relationship both countries need, and for the healthy China we need to see in the coming decades -- our policies need to be a little tougher and more focused.

Most of the reforms we hope to see as China enters the WTO -- not only lower tariffs and quotas, but greater reliance on the rule of law, fewer subsidies, a more open and market-driven economy -- are very much like the successful reforms the IMF has asked from Thailand and Korea.

China's problems are not precisely the same as theirs. It has fewer foreign debts, more fixed investment, and -- most important -- an early warning. But they are close enough to worry me. And it is a happy coincidence that the solutions are very close to our goals in trade, and to the goals of China's own economic reforms.

But up to now China has not been able to face up to them. So I think, in essence, we need a policy of tough love.

China must have a material incentive to enter the WTO. So the Administration should endorse, and Congress pass, a law to make permanent MFN status automatic when China enters the WTO.

China must have a moral incentive to enter the WTO. So with our bilateral talks on Taiwan's WTO membership complete, the Administration should push for Taiwan's rapid entry into the WTO, regardless of where talks with China stand.

And China must see a price for unnecessary delay in entering the WTO. So if we are still stagnating after the President's visit to China in June, we should open a broad market access case under Section 301 of our trade law.

#### CONCLUSION

This is a pretty tough approach. It can be avoided if China takes a different approach to our trade negotiations as President Clinton's state visit approaches. But if the status quo doesn't change, our policies have to recognize that and adapt.

Thank you all. I look forward to your questions -- but more to hearing your views, opinions and reactions.